GUARANTEEING GROWTH

Harnessing Nigeria's new Credit Guarantee Company

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Manager of Western Nigeria Integration Agenda

EXECUTIVE SUMMARY

President Tinubu's establishment of the National Credit Guarantee Company (NCGC) marks a watershed in Nigeria's pursuit of inclusive economic growth. By structurally de-risking the credit environment, the NCGC aims to close the long-standing trust gap that has kept MSMEs, informal sector players, and emerging entrepreneurs at the margins of formal finance. However, its success will hinge not just on capital injection or policy ambition, but on effective execution, institutional integrity, and a shared commitment from financial actors to treat credit as a public good—one that fuels productivity, inclusion, and national resilience. Nigeria needs not look far for cautionary tales. Ghana's Credit Guarantee Scheme, undermined by misaligned incentives and weak governance, underscores the importance of strong oversight and credibility. The NCGC must learn from such experiences: it must be agile yet accountable, ambitious yet transparent, and rigorously data-driven while remaining accessible to those most in need. If anchored by strategic clarity and disciplined management, the NCGC can do more than unlock finance—it can unlock opportunity, uplift livelihoods, and help reshape Nigeria's economic future for generations to come.

INTRODUCTION

In a bold move to address Nigeria's long-standing credit access challenges, especially among micro, small, and medium-scale enterprises (MSMEs), the Federal Government established the **National Credit Guarantee Company Limited (NCGC)**, which became operational on **1 July 2025.** This specialised financial institution is being positioned as a transformative force for the country's real economy, with an **initial capital base of ₦100 billion**, funded through a strategic consortium comprising the **Ministry of Finance Incorporated (MOFI)**, the **Nigeria Sovereign Investment Authority (NSIA)**, the **Bank of Industry (BOI)**, and **CrediCorp** (the Nigeria Consumer Credit Corporation). Technical support from the **World Bank Group** further strengthens its design and implementation framework, drawing from global best practices.

For decades, access to credit has remained one of the most significant barriers to business growth in Nigeria. Collateral constraints, limited credit history, high-risk perception, and structural biases against small enterprises have led banks to be reluctant and MSMEs to remain underserved. Entrepreneurs—particularly those in manufacturing, agriculture, and informal sectors—are often left to rely on personal savings, family assistance, or exploitative lending arrangements, stifling their potential to scale.

Globally, credit guarantee schemes have emerged as critical instruments to mitigate these barriers. By offering partial risk cover to lenders, they encourage financial institutions to extend credit to borrowers who would otherwise be excluded. A 1969 case study from Ghana illustrates both the potential and pitfalls of such schemes: while it initially succeeded in expanding loan coverage to small-scale enterprises, poor enforcement, inflationary pressures, and inefficiencies in claim settlement eventually undermined its impact.

Nigeria's NCGC has learned from such precedents. Beyond simply de-risking loans, it aims to stimulate industrialisation, deepen financial inclusion—particularly for youth and women—and ultimately build confidence in the country's financial system. It is also a strategic pillar of the Tinubu administration's broader reform agenda to modernise the credit landscape and drive inclusive economic growth.

1

THE CREDIT GAP IN NIGERIA

Despite the well-documented contributions of Micro, Small, and Medium Enterprises (MSMEs) to Nigeria's GDP and employment, they remain significantly underfinanced. According to a 2023 report by the SMEDAN-NBS National Survey of MSMEs, the sector comprises over 39 million enterprises, accounting for nearly 90% of businesses and over 70% of employment in the country. Yet, less than 5% of these businesses have access to credit from formal financial institutions.

Several systemic and structural issues account for this credit gap:

HIGH RISK PERCEPTION BY LENDERS

Banks often see MSMEs as unstable due to their high mortality rate, informality, and exposure to market shocks. Without the benefit of long-term credit histories or audited financial statements, these businesses are deemed high-risk and consequently avoided.

COLLATERAL AND DOCUMENTATION BARRIERS

Many small businesses lack the fixed assets required as collateral. In some cases, even where land or property exists, the absence of proper title documentation (especially in informal settings) renders them ineligible.

STRUCTURAL BANK BIAS

Banks and financial institutions tend to favour lending to large corporate clients due to the perceived safety and lower administrative burden. The unit economics of retail MSME lending—characterised by small ticket sizes, high monitoring costs, and resource-intensive onboarding—discourage many from expanding their credit portfolios to small businesses.

LOW FINANCIAL LITERACY AND TRUST DEFICIT

A considerable number of MSME owners lack financial literacy, which limits their ability to engage with the formal credit system effectively. Moreover, years of exploitative experiences and poor customer relations from financial institutions have created a deep trust deficit.

These challenges are not unique to Nigeria. Globally, MSMEs in developing countries face challenges in accessing credit. However, what distinguishes successful economies is how they have responded through targeted, well-managed credit guarantee schemes that unlock bank lending without compromising financial stability.

2

WHAT THE NATIONAL CREDIT GUARANTEE COMPANY OFFERS

The National Credit Guarantee Company (NCGC) marks a strategic shift in Nigeria's development finance architecture. Rather than directly disbursing loans, the NCGC is designed to de-risk lending by offering partial credit guarantees to banks and other financial institutions. In doing so, it aims to unlock credit flows to underserved yet high-potential sectors, including MSMEs, agribusinesses, and youth-led enterprises.

With an initial capital base of ₦100 billion, funded by MOFI, NSIA, BOI, and CrediCorp, and technical assistance from the World Bank, the NCGC aims to act as a stabilising bridge between Nigeria's informal business economy and formal financial systems.

KEY FEATURES OF THE SCHEME

- **Partial Risk Guarantees**

Through a structure that guarantees a portion (typically 50%–80%) of qualified loans, the NCGC reduces the credit risk borne by lenders. This risk-sharing encourages more proactive lending, particularly to borrowers who would otherwise be denied due to a lack of collateral or a poor track record.

- **Sectoral and Demographic Targeting**

The scheme prioritises MSMEs across manufacturing, agriculture, creative industries, and tech sectors with high job-creation potential. It also explicitly seeks to support women- and youth-led enterprises, thereby aligning with Nigeria's broader inclusion and poverty reduction goals.

- **Partnerships with Financial Institutions**

The NCGC does not operate in isolation. It functions by collaborating with commercial banks, microfinance banks, and DFIs. These institutions conduct credit assessments and disburse loans, with the NCGC underwriting a defined portion of the risk.

- **Institutional Backing and Operational Standards**

With strong backing from credible government and quasi-government agencies, as well as the involvement of the World Bank, the NCGC is well-positioned to operate with higher governance standards, transparency, and data-driven monitoring mechanisms.

REGIONAL PRECEDENT: GHANA'S CREDIT GUARANTEE SCHEME (1969–1980)

Nigeria's NCGC is not the first such initiative on the continent. In 1969, Ghana launched a Credit Guarantee Scheme (CGS) under the Bank of Ghana to stimulate lending to small enterprises. Initially, the scheme saw notable success—by 1975/76, over 7,000 guarantees had been issued, covering loans exceeding ₵42 million.
However, the program soon experienced a steep decline. By 1979, only 514 guarantees had been issued, and major banks had largely abandoned the scheme. Several systemic issues contributed to its failure:

- **Weak enforcement:** Banks were not compelled to channel loans through the scheme, weakening adoption.
- **Poor inflation adjustment:** Guarantee caps failed to keep pace with inflation, eroding their real value.

- **Slow claims processing:** Delays and reluctance in reimbursing lenders undermined trust in the scheme.
- **Inadequate oversight and staffing:** The CGS lacked the institutional capacity to effectively assess and monitor loans.
- **Misaligned success metrics:** The administrators equated low claim payouts with scheme success, disincentivising proper usage.

These problems highlight what Nigeria must avoid. The NCGC must:

- Ensure realistic, inflation-sensitive guarantee ceilings,
- Enforce transparency and timely settlement of claims,
- Build a robust digital system for loan tracking and reporting.
- And adopt a balanced approach to success metrics, valuing impact and financial health over minimal payouts.

3

POTENTIAL ECONOMIC GAINS

The establishment of the National Credit Guarantee Company (NCGC) is more than a financial sector intervention — it is a structural lever for economic transformation. By directly addressing long-standing credit market failures, the NCGC has the potential to unlock a cascade of economic gains across Nigeria's productive sectors.

- **Expanded Access to Finance**

The most immediate gain is the increase in loan approvals to previously underserved sectors. With the risk of default partially absorbed by the NCGC, financial institutions are incentivised to lend more actively to micro, small, and medium enterprises (MSMEs), especially those lacking traditional collateral. This not only broadens access but also democratises economic opportunity for informal traders, rural entrepreneurs, and first-time borrowers.

- **Boost to Local Manufacturing and Agricultural Value Chains**

Nigeria's over-reliance on imports has often been attributed to the weakness of its local industry. One major bottleneck for local producers has been financing, whether for equipment, inventory, or working capital. The NCGC could stimulate domestic production capacity, enhance agro-processing value chains, and reduce Nigeria's import dependency through targeted support to local manufacturers and agribusinesses.

- **Job Creation and Youth Empowerment**

With Nigeria's youth unemployment rate hovering at alarming levels, the ripple effects of increased credit access are significant. MSMEs are Nigeria's largest employers, and better financing enables them to expand operations and absorb more labour. Moreover, the NCGC's explicit focus on youth-led and women-owned enterprises could catalyse innovation and inclusion, helping to unlock the country's demographic dividend.

- **Strengthened Financial System Confidence**

As the NCGC establishes a track record of transparency and impact, it is likely to enhance lender confidence in the informal and semi-formal sectors. Over time, this could reduce the country's overall credit risk premium and narrow interest rate spreads, making credit more affordable and competitive.

- **Acceleration of Formalisation**

One often-overlooked benefit is that access to formal credit promotes business formalisation. Many informal enterprises shy away from registering their businesses due to distrust or a perceived lack of benefit. However, with credit schemes like NCGC requiring a minimal level of registration, documentation, and financial discipline, small businesses are encouraged to adopt formal systems. This has wider benefits, including an enhanced tax net, improved data for policy, and stronger regulatory oversight.

- **Empowerment of Marginalised Demographics**

The NCGC's prioritisation of women and youth ensures that development finance is not gender- or age-neutral, but actively redistributive in its approach. In a country where socio-cultural and institutional factors hinder access to capital, targeted inclusion fosters equity and participation in economic growth.

CONCLUSION

President Tinubu's establishment of the National Credit Guarantee Company (NCGC) serves as a pivotal moment in the nation's journey toward inclusive economic growth. By structurally de-risking the credit ecosystem, the NCGC bridges a trust gap that has long excluded MSMEs, businesses in the informal sector, and emerging entrepreneurs from formal financial participation.

Yet, the success of this institution will not rest solely on its capital base or policy blueprint. It will depend on sound implementation, institutional integrity, and the commitment of financial actors to view credit not as a privilege, but as a public good that drives productivity, equity, and national resilience.

Nigeria has watched as other schemes across Africa have risen and faltered—Ghana's Credit Guarantee Scheme being a cautionary tale of misaligned incentives, weak governance, and dwindling credibility. The NCGC must take these lessons seriously. It must be agile yet accountable, ambitious yet transparent, and data-driven while remaining inclusive.

If managed with clarity of purpose and strategic discipline, the NCGC can go beyond unlocking loans—it can unlock livelihoods, lift millions out of precarity, and reshape the economic landscape in Nigeria for generations to come.

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About DAWN Commission

The Development Agenda for Western Nigeria (DAWN) Commission is the think-tank established in July 2013 by the six Governments of the States of Southwest region of Nigeria to manage their regional integration and development agenda. Our mandate is to strengthen socio-economic competitiveness of the region by facilitating sustainable working relationships among state and non-state development stakeholders.

Operating on the five pillars of economic development, social and human development, infrastructure, building inclusive institutions, and homeland affairs, DAWN Commission is a valuable partner to development stakeholders and enthusiasts interested in leveraging the regional integration agenda to promote shared goals and objectives.

Credits

This analysis is published by the Economic Development and Research Desk of the Development Agenda for Western Nigeria (DAWN) Commission.

Adesoji Farayibi adesoji.farayibi@dawncommission.org
Head, Economic Development and Research

Aanuoluwapo Adesina aanuoluwapo18@gmail.com
Volunteer

Oluwadunsin Olorunfemi dunsin.olorunfemi@dawncommission.org
Senior Associate, Research and Data

For further information

DAWN COMMISSION
10th Floor, Cocoa House,
Oba Adebimpe Road
Dugbe Ibadan.
Oyo State, Southwest Nigeria
Email: info@dawncommission .org
Tel: +234 7013130764
www.dawncommission .org